

HOUSING MARKET OUTLOOK

Kitchener and Guelph CMAs



Canada Mortgage and Housing Corporation

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New Home Market

Mixed Picture for Starts

Housing starts in the Kitchener and Guelph CMAs will move in opposite directions in 2009. Housing starts in the Kitchener CMA will increase to 2,650 in 2009, up four per cent from the expected 2,560 starts in 2008. Guelph CMA housing starts will slip by three per cent to 890 in 2009 from the forecasted 920 starts

in 2008. Rising house prices, a well supplied resale home market and uncertain economic conditions will combine to keep housing starts lower than levels seen in the first half of the decade. In the medium term, starts will be moving gradually higher in line with demographic requirements. Within the next ten years, the type and location of housing starts will be impacted by

Figure 1

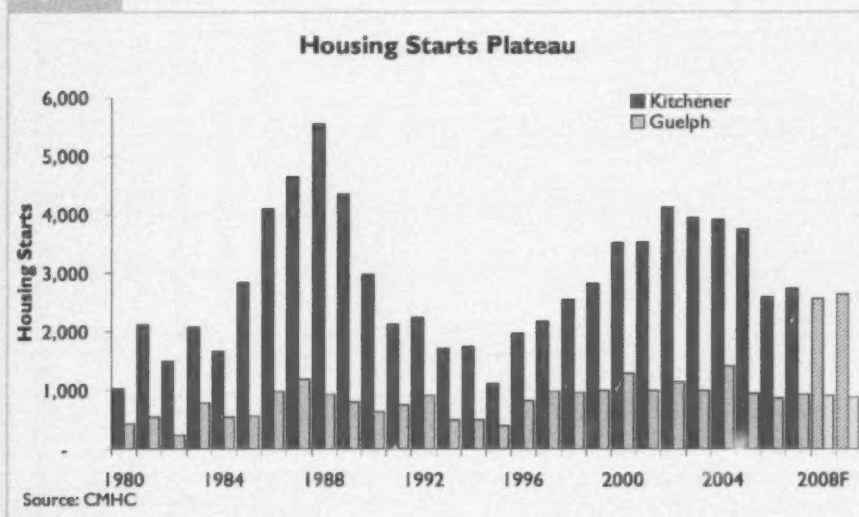


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provincial and local efforts to use land more intensively.

Single-detached starts in the Kitchener CMA will increase by eight per cent, while Guelph CMA detached starts will slip by two per cent. Detached homes remain the product of choice for many homebuyers. Wealthier move-up buyers will support demand for detached homes. After two years of moderate detached starts due to a lot shortage, increased construction activity in Cambridge will boost Kitchener CMA detached starts above the 2008 level.

Single-detached homes are becoming more expensive. But, as demand for detached homes has eased in the past few years, price growth has slowed. The average price of a newly-completed single-detached home in the Kitchener CMA will reach \$360,000 in 2009, up slightly more than one per cent, while Guelph prices will increase by less than two per cent. Looking ahead, higher lot prices and development charges will push up new home prices. The overall Kitchener CMA has a good supply of undeveloped land, but the ability of builders to acquire lots for single-detached homes in certain areas may impact prices moving forward.

Semi-detached homes, townhomes and apartments are a more affordable option to higher priced single-detached homes. In both the Kitchener and Guelph CMAs, construction of these home types has been trending higher. With the emphasis on intensification, they will represent a significant share of future new construction – close to

50 per cent in both CMAs.

Townhome construction activity will remain strong as row houses are a more affordable option for homebuyers who desire ground-oriented living. Apartment construction will remain buoyant in both CMAs. In the Kitchener CMA, most developers plan to rent the new apartments due to the strong demand from the student population and younger workers for this type of housing. In the Guelph CMA, the focus of builders has shifted to condominium apartments as retirees, empty-nesters and first-time buyers are attracted to the condominium apartment lifestyle.

Resale Home Market

Sales Slowdown

The resale home market in the Kitchener-Guelph area will continue to moderate in 2009. Sales of

existing homes through the Kitchener-Waterloo Real Estate Board will reach 6,100 units in 2009, down six per cent from the expected 6,500 sales in 2008. Sales through the Guelph and District Real Estate Board will decline by seven per cent to 2,700 units.

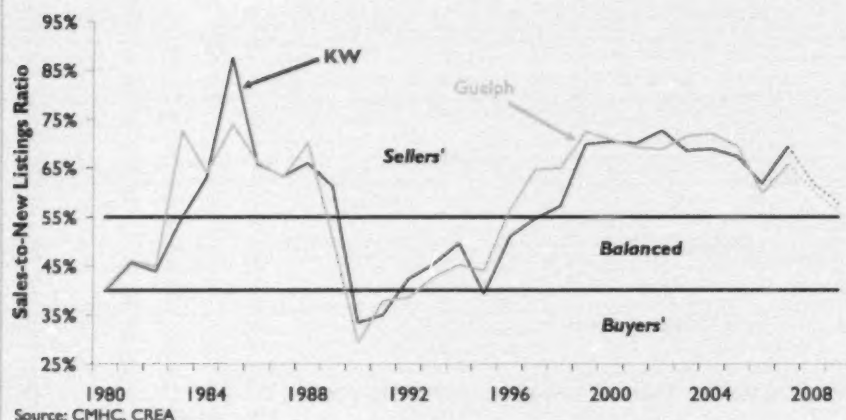
Rising house prices, uncertainty about the economy and the satiation of demand will dampen existing home sales in 2009. With the more diverse financing options available after 2006, many first-time buyers were able to enter the resale market earlier than would normally have been expected resulting in less first-time buyer activity moving forward.

The price advantage of resale over new, more selection, and continued population growth will combine to keep existing home sales at strong levels, but below record 2007 levels. Move-up buyer activity will support existing home sales through 2009. A well supplied existing home market will influence many homebuyers to

Figure 2



Figure 3

Resale Home Markets Favour Sellers in 2008

begin the search for their new home in the resale market.

The supply of resale homes will move higher again in 2009. New listings are expected to reach near record levels which have not been seen since 1990. Rising home equity due to rising prices continue to encourage some homeowners to list their homes for sale so that they can move into a home more suited to their needs.

The average price of a resale home through the KW Board will increase by two per cent in 2009 to reach \$277,000. Guelph prices will reach \$276,000, an increase of two per cent.

With the number of new listings growing, and demand moderating, the sales-to-new listings ratio (SNLR), a leading indicator of price growth and a measure of market state, will move lower. The lower SNLR will be indicative of more balanced market conditions. As a result, existing home prices will grow at a slower pace.

Economic Trends

Little Employment Growth

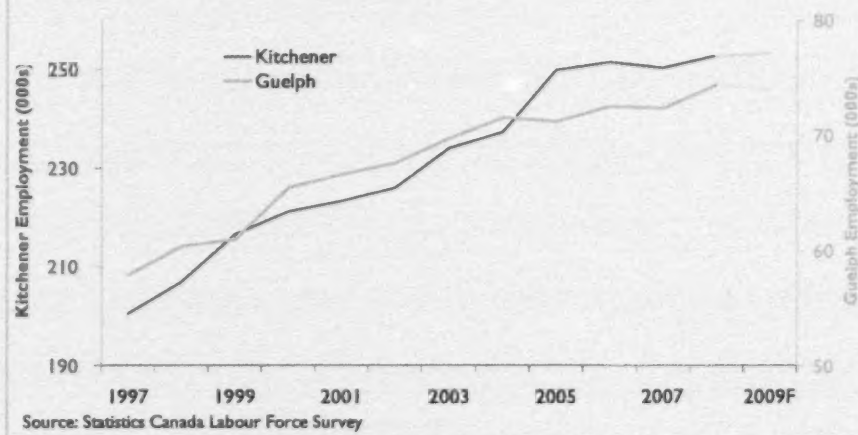
Economic growth in the Kitchener-Guelph area will be flat in 2009. Employment in the Kitchener CMA will increase by less than one per cent in 2009, while the Guelph CMA will see employment declining by less than one per cent. The unemployment rate is expected to in-

crease in 2009, but will continue to trend below the Ontario average.

While the expanding service sector has been supporting employment growth in the past, lower consumer spending through 2009 will slow growth in this sector. Several employment sectors from a diverse economy continue to add jobs. Over the next year, job growth will occur in the high tech sector, as well as in the education, trade and construction sectors in the Kitchener CMA. These sectors are creating higher-paying jobs. On the other hand the manufacturing sector, and its largest sub-sector, the automotive industry, will continue to face challenges.

Overall weekly earnings are forecast to increase by two per cent in both the Kitchener and Guelph CMAs in 2009. Despite the loss of higher-paying manufacturing jobs, many of the growth sectors have jobs which pay above-average wages. Employment growth in sectors such as education and high tech will continue to support housing demand.

Figure 4

Employment Flat

Continued Population Growth

Population growth in the Kitchener CMA has slowed due to an outflow of migrants to Western Canada. Net migration into the Kitchener CMA is expected to reach 2,500 persons in 2009. A diverse economy, high employment rate and more affordable house prices are attractive to migrants.

The Kitchener CMA cannot be characterized as a bedroom community. According to data from the 2006 Census, only 14 per cent of employed persons who lived in the Kitchener CMA worked outside the CMA. Companies in the Guelph CMA, Peel Region and Toronto employ the most Kitchener workers. On the other hand, companies in the Kitchener CMA employ more than 34,000 non Kitchener CMA residents. More than 5,000 more people each day travel to the Kitchener CMA for work than leave the CMA. Similar Guelph CMA data shows that more than 25 per cent of employed Guelph residents work outside the CMA.

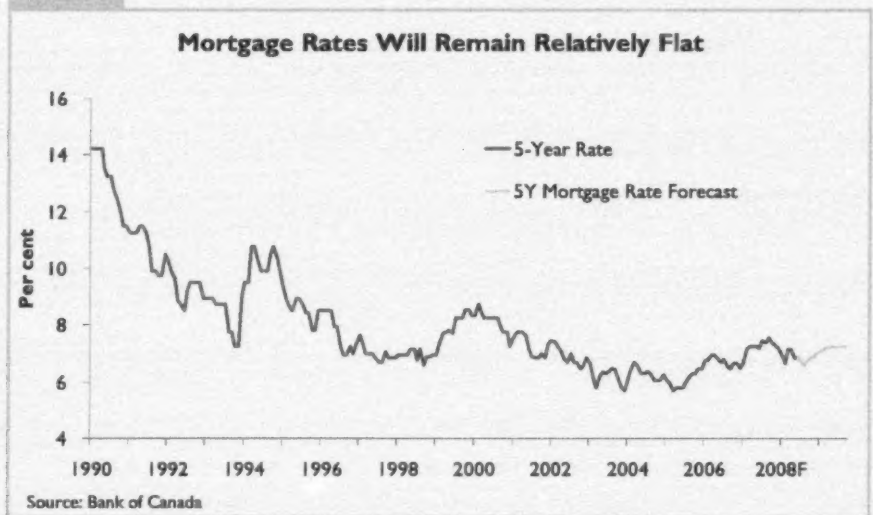
Current gasoline prices will not induce most area commuters to move closer to their work.

Mortgage Rates

Mortgage rates are expected to be relatively stable throughout the last quarter of this year, remaining within 25-50 basis points of their current levels. Posted mortgage rates will decrease slightly in the first half of

2009 as the cost of credit to financial institutions eases. Rising bond yields, however, will nudge mortgage rates marginally higher in the latter half 2009. For the last quarter of 2008 and in 2009, the one year posted mortgage rate will be in the 6.00-6.75 per cent range, while three and five year posted mortgage rates are forecast to be in the 6.50-7.25 per cent range.

Figure 5



Forecast Summary Kitchener CMA Fall 2008

	2005	2006	2007	2008f	% chg	2009f	% chg
Resale Market							
MLS® Sales	6,147	6,115	7,031	6,500	-7.6	6,100	-6.2
MLS® New Listings	9,127	9,896	10,164	10,500	3.3	10,600	1.0
MLS® Average Price (\$)	220,511	237,913	252,429	271,000	7.4	277,000	2.2
New Home Market							
Starts:							
Single-Detached	2,082	1,542	1,159	1,300	12.2	1,400	7.7
Multiples	1,681	1,057	1,581	1,260	-20.3	1,250	-0.8
Semi-Detached	116	210	234	100	-57.3	100	0.0
Row/Townhouse	918	545	594	660	11.1	650	-1.5
Apartments	647	302	753	500	-33.6	500	0.0
Starts - Total	3,763	2,599	2,740	2,560	-6.6	2,650	3.5
Average Price (\$):							
Single-Detached	287,623	313,149	345,819	355,000	2.7	360,000	1.4
New Housing Price Index (% chg.)							
	5.0	4.1	1.5	2.5	-	2.6	-
Rental Market							
October Vacancy Rate (%)	3.3	3.3	2.7	2.5	-0.2	2.4	-0.1
Two-bedroom Average Rent (October) (\$)	811	824	829	841	-	854	-
Economic Overview							
Mortgage Rate (1 year) (%)	5.06	6.28	6.90	6.75	-0.15	6.31	-0.44
Mortgage Rate (5 year) (%)	5.99	6.66	7.07	7.05	-0.02	6.92	-0.13
Annual Employment Level	249,900	251,400	250,300	252,700	1.0	253,400	0.3
Employment Growth (%)	5.3	0.6	-0.4	1.0	-	0.3	-
Unemployment rate (%)	5.7	5.2	5.5	5.6	-	5.8	-
Net Migration ⁽¹⁾	2,793	1,973	2,500	2,500	0.0	2,500	0.0

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** Percent change > 200%

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)

NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

(1) 2007 migration data is forecasted

Forecast Summary Guelph CMA Fall 2008							
	2005	2006	2007	2008f	% chg	2009f	% chg
Resale Market							
MLS® Sales	2,932	2,859	3,088	2,900	-6.1	2,700	-6.9
MLS® New Listings	4,223	4,771	4,704	4,800	2.0	4,850	1.0
MLS® Average Price (\$)	236,140	245,676	262,186	270,000	3.0	276,000	2.2
New Home Market							
Starts:							
Single-Detached	566	485	575	450	-21.7	440	-2.2
Multiples	385	379	366	470	28.4	450	-4.3
Semi-Detached	70	80	58	40	-31.0	50	25.0
Row/Townhouse	282	205	274	130	-52.6	200	53.8
Apartments	33	94	34	300 **		200	-33.3
Starts - Total	951	864	941	920	-2.2	890	-3.3
Average Price (\$):							
Single-Detached	300,001	342,330	360,882	370,000	2.5	377,000	1.9
New Housing Price Index (% chg.) (Ont.)	4.6	3.7	2.6	n/a	-	n/a	-
Rental Market							
October Vacancy Rate (%)	3.6	2.8	1.9	1.8	-0.1	1.7	-0.1
Two-bedroom Average Rent (October) (\$)	830	839	848	860	-	873	-
Economic Overview							
Mortgage Rate (1 year) (%)	5.06	6.28	6.90	6.75	-0.15	6.31	-0.44
Mortgage Rate (5 year) (%)	5.99	6.66	7.07	7.05	-0.02	6.92	-0.13
Annual Employment Level	71,400	72,700	72,600	74,400	2.5	74,100	-0.4
Employment Growth (%)	-0.3	1.8	-0.1	2.5	-	-0.4	-
Unemployment rate (%)	4.8	5.5	5.7	5.5	-	6.1	-
Net Migration (Ont.) ⁽¹⁾	101,730	98,768	68,759	57,932	-15.7	64,500	11.3

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